

Pages 10 & 11 incl

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IN THIS ISSUE:

The Why and How of Inventory Control Page 3
By: L. F. Neitzel

Every Company Should Have a Budget Manual Page 9
By: Earle G. Milla

Preliminary Considerations For the
Operating Budget Page 10

Know Your Officers Page 15

Chapter News - New Members - Special Reports

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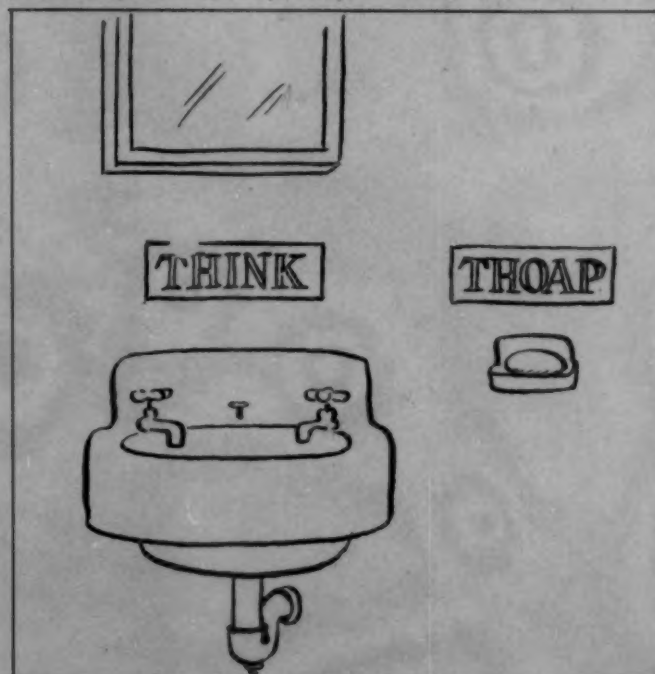
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Members of NSBB who are interested in keeping all issues of Business Budgeting magazine for ready reference, can now purchase a handsome binder for this purpose, as illustrated above.

The binder is designed to hold about 24 issues of the magazine; it is stamped on the backbone "Business Budgeting". They are now being made available to NSBB members for \$3.25 each; order from The Federbush Company Inc., 91 Seventh Avenue, New York 11, N.Y. Specify "Special Business Budgeting binder, stock No. S-160102.

WE HASTEN TO GIVE CREDIT TO ...

Mr. E. J. Hanley, president of the Allegheny-Ludlum Steel Corp. of Pittsburgh, a few years ago gave his viewpoint of the ideal Controller; in a talk before the Chicago Chapter of the NSBB, Mr. E. G. Mauck, our past National President, quoted from Mr. Hanley's remarks, stating he felt they were "equally applicable to the Budget Director". In reporting on Mr. Mauck's talk in these columns of our November, 1956 issue, we failed to "credit" Mr. Mauck's original source. We hasten to do so! Our apologies, Buck ... and to you, too, Mr. Hanley. -- Editors.



THE WHY AND HOW OF INVENTORY CONTROL

By: L. F. Neitzel

Manager, Budget Department, Allis-Chalmers Manufacturing Co., Milwaukee, Wisconsin

The importance of inventory control to a good budget program is well known to all budget directors. They why and how of inventory control procedures are not so well known. Here, another subject which all good budget men should not only be acquainted with - - - but at which they should be experts.

Inventory Control - what is it? First, what is the meaning of the word "Control"? Webster defines control as the "exercise of a restraining, guiding, governing and regulating influence".

More in line with the situation of a business enterprise is the definition written over 50 years ago by Henri Fayol, a Frenchman, who stated in part that "the control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given and the principles laid down. Its object is to point out mistakes in order they may be rectified and prevented from occurring again."

These two definitions emphasize one central fact. Control is a dynamic force. It is established and maintained by people. It involves the application of judgment, the ability to make and implement decisions, the compulsion to analyze and evaluate results and take corrective action.

This is the point at which we sometimes get off the track. A system of records and reports is set up and called a control system. The fact is overlooked that these are tools which do nothing by themselves. It is only when they are used by people that they become significant. An inventory ledger does not exercise control. It is a tool only, and is useful only in the care of an inventory

clerk. It is necessary to avoid the all too common error of becoming so interested in the mechanics of a system that the prime movers of the system, people, are not considered at all.

PROBLEMS IN CONTROL OF INVENTORY

Maintaining the correct amount of inventory is not a natural tendency. The easiest and safest procedure is to have plenty of everything. When a Company operates on this assumption they may be headed for trouble. Inventories have often been referred to as the graveyard of American business. More companies have gone broke because they didn't properly control inventories than for any other single factor.

In an attempt to better educate its people, Allis-Chalmers prepared a four page folder explaining Inventory Turnover and what it meant to the company. This folder was distributed to management people at all levels, and to all people that had anything to do with inventory.

Page 1 of this folder (exhibit 1) depicts the time cycle that determines inventory turnover and what it is. There are many ways of figuring inventory turnover, and we must be careful when making comparisons. Some people may be dividing year-end inventory into Sales. As you can see, inventory turnover is simply the number of times the average inventory is sold during a 12-month period. The example shows that sales costing \$100,000 a year are divided by the average inventory of \$25,000, for a turnover rate of 4.

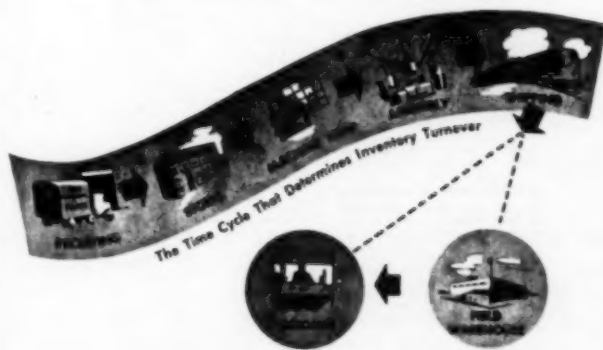
Page 2 of this folder (exhibit 2) shows the effect of inventory turnover on the money invested. It shows that capital invested can be cut by 50% by increasing turnover from 1 to 2. Looking at it another way, Allis-Chalmers had average inventory of \$171 million in the year 1955 with a turnover rate of approximately 2-1/2. If our turnover had been only one it would have required additional investment of \$250 million.

RETURN ON INVESTMENT FACTOR

One thing is common to every business. Management must make a return on the investment entrusted to it. The objective of any business is a good percent of return on investment. Inventory is, however, a very large part of any company's investment no matter how it is figured. At Allis-Chalmers inventory represents 40% of its total investment, that is, all money invested by shareholders, banks, suppliers and retained earnings. Inventory is the element of our total investment, which is most responsive to control.

In our country's expanding economy a company must continue to grow if it does not want to get lost in the shuffle. Every time sales increase by 10 million dollars, it requires additional working capital for inventory and receivables of 5 million dollars. Any company is limited in the amount of long-term debt it can obtain, therefore,

INVENTORY TURNOVER



INVENTORY TURNOVER - WHAT IT IS:

Inventory Turnover is simply the number of times the average inventory is sold (or used) during the year. The turnover rate is easily figured by dividing the total cost of goods sold (or used) in a year by the average value of the inventory. For example, if goods costing \$100,000 are sold (or used) in one year with an average inventory value of \$25,000, then the yearly rate of turnover equals 4 (\$100,000 divided by \$25,000). Inventory value includes all items of inventory such as raw materials, work in process, parts stock, finished stock and finished products not shipped.

EXHIBIT No. 1

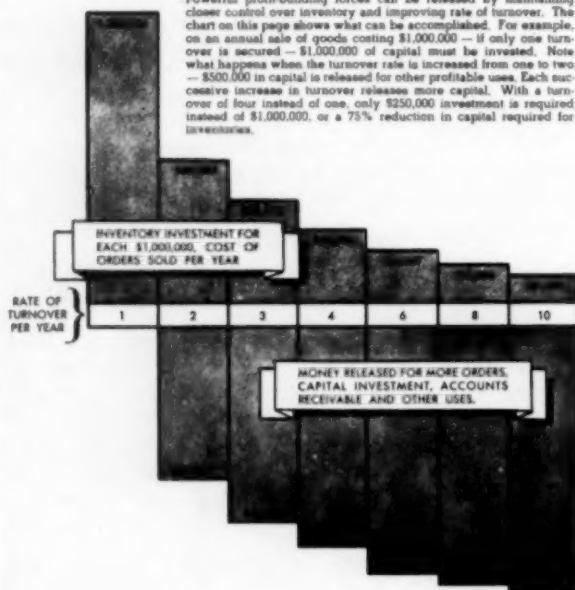
it must utilize the investment it has to the best advantage if it is to grow with the economy.

borrowed should be included. Some people figure cost of money on the basis of the return on investment desired.

INVENTORY TURNOVER

To Reduce Company Investment:

Powerful profit-building forces can be released by maintaining closer control over inventory and improving rate of turnover. The chart on this page shows what can be accomplished. For example, on an annual sale of goods costing \$1,000,000 — if only one turnover is secured — \$1,000,000 of capital must be invested. Note what happens when the turnover rate is increased from one to two — \$500,000 in capital is released for other profitable uses. Each successive increase in turnover releases more capital. With a turnover of four instead of one, only \$250,000 investment is required instead of \$1,000,000, or a 75% reduction in capital required for inventory.



To Reduce Costs:

Turnover of inventory affects the entire operation of a business. Profits result from inventory that moves and not from inventory that stays in the bins and yards. The burden of slow inventories is graphically illustrated in the chart on this page. Not only is capital tied up (as shown on the opposite page) but ever mounting carrying costs eat into profits. These carrying costs include such items as interest on money invested in stock, the moving and handling of material, the cost of storage and insurance, the wages and salaries of people required to handle excess stock, and the losses due to obsolescence and write-downs. These carrying costs amount to approximately 12% of the value of inventory each year.



THE greatest cost and most serious business losses occur from overstocks and slow turnover. Many times the arguments used to justify ordering large quantities is the increased cost that would be incurred due to increased paper work and cost of acquisition. These costs cover such items as setup time, processing of a shop order, purchasing cost, inventory records, receiving, inspection, accounting and payment of bills. It is to be noted that the acquisition costs do not over-balance the carrying cost until a turnover rate of eight times per year is reached.

EXHIBIT No. 2

Page 3 of this inventory folder (exhibit 3) shows that you can get too inventory conscious if you order so often that the acquisition cost would more than offset the savings in carrying cost. This chart is a theoretical picture and does not represent any particular company. In fact, I doubt that you could prepare this type of chart for an over-all plant. You can do it for an item, though and this will be covered later when we get into economical ordering quantities.

To make the most effective business decisions it is vital that you know the approximate cost of carrying inventory in your plant.

COST OF CARRYING INVENTORY

The cost of carrying inventory will generally consist of three basic factors:

1. Possession Costs
2. Value Losses
3. Cost of Money

"Possession Costs" consist of such items as:

1. Space
2. Equipment
3. Handling cost of inventory
4. Insurance
5. Taxes
6. Cost of taking physical inventory

"Value Losses" consists of such items as:

1. Obsolescence
2. Deterioration and damage

COST OF MONEY

When figuring carrying cost, only the cost of money

This method does, however, penalize the inventory carrying cost too much. The return on investment should be made from profit on goods sold. When figuring carrying costs, only figure the actual cost. You have probably heard all kinds of figures on the cost of carrying inventory; some use a figure as high as 25% per year. We have

Important Items in Properly Controlling Inventory

Those responsible for the successful operation of the Company realize that proper control of inventory is most important. At the same time it is realized that proper control of inventory does not mean "shortages". To insure that the Company has good inventory control but has sufficient material to meet its requirements it is necessary that particular attention be given, at all times, to several important items. These items must be carefully considered in order that the proper inventory turnover is maintained.

1. Procurement Time:

Procurement Time is the amount of time required to obtain a completed item or part. Procurement time records must be kept current and accurate and orders must be placed sufficiently in advance to order that stock items will be available when they are needed.

2. Review of Past Sales and Usage:

Proper records of previous sales and past usage must be maintained for use as a basis in forecasting future requirements.

3. Economical Ordering Quantities:

While it is true the smallest economical quantities should be ordered to insure the highest possible rate of turnover, care should be taken that extra precautions are not actually being paid because too small a quantity is being ordered. In many cases it may be possible, when the most economical quantity would result in overstocking, to split the delivery of the order, thus controlling the inventory and, at the same time, taking full advantage of a more favorable price.

4. Reasons For Stocking:

Each item carried in stock should be periodically reviewed to make certain that the item should

be carried in stock. Factors to consider when determining whether an item should be stocked are:

- a. How and with what products is the item used? Is the item and product one that is sold most in every other delivery and, therefore, must be carried in full, half or semi-finished stock? (For instance, small general purpose motors and control).
- b. Is the product for which the part or material is used one that must be built in quantity if the Company is to obtain costs low enough to meet competitive prices and not lose money?
- c. Must the Company carry the part in finished stock or semi-finished stock in order to service customers, to maintain good will and to make future sales?
- d. Are you certain that the item should be carried in stock and that the number of machines to service which may require the part warrants carrying a stock at all?

5. Excess Stock — What To Do About It:

Excess stock may appear due to errors in forecasting usage, changes in market, over-ordering, or for other reasons. When it is apparent that an excess stock of an item has developed, don't let it sit there — sell it to the attention of those who can make it and of those who ordered it so that a review can be made to prevent overstocking of other items.

Remember inventory turnover: reduces the Company investment; reduces the Company's cost; produces a Company profit.

EXHIBIT No. 3

made actual calculations from year to year and have found it varies between 10% and 15%. We have standardized

on a figure of 1% per month for analyzing individual cases.

In figuring acquisition cost you must include such items as set-up, processing of shop orders, purchasing department costs, receiving, inspection and accounting and payment of bills. We have made several studies on the cost of acquisition and have come up with figures of approximately 15 dollars per order. You must understand, however, that the cost of carrying one item alone does not necessarily cost 1% per month because of certain fixed cost which continues whether a warehouse is full or half full. Also, the cost of acquiring one extra order in a given day does not cost \$15. We do have to decide on a figure to use in figuring economical ordering quantities but we must be careful in using these figures for other purposes. They are merely guides and good business judgement must accompany their use.

Page 4 of this folder (exhibit 4) covered other important items necessary in properly controlling inventory.

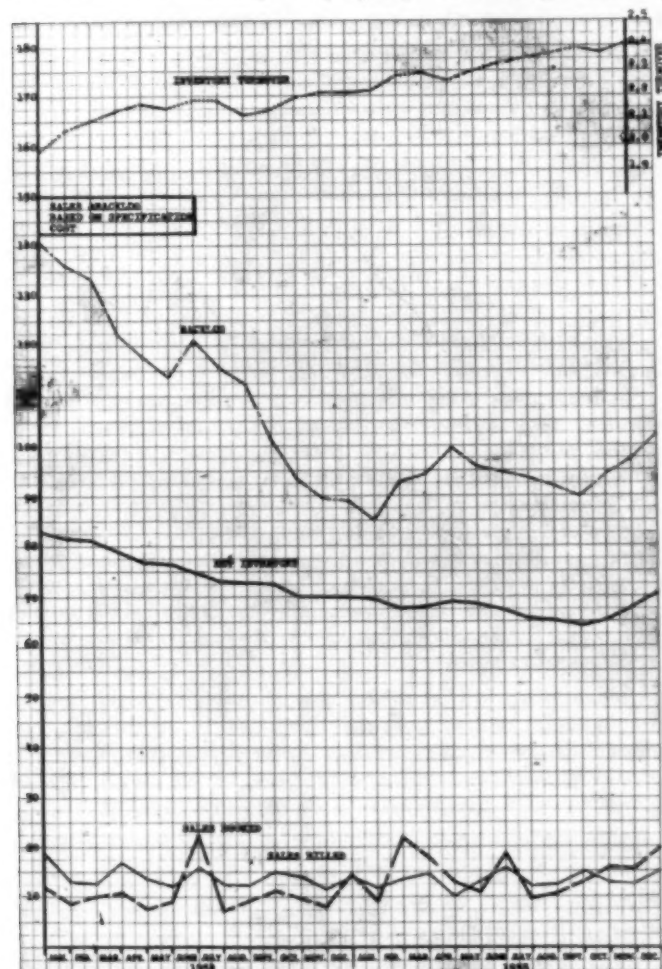


EXHIBIT No. 4

In order to watch inventory trends closer a series of charts have been developed for each line of product and also for designated categories of raw materials and supplies. Exhibit 4 and 5 shows the inventory picture of one of our departments. There are over 50 charts of this kind representing each product line. In addition, there are over 75 charts showing the inventory picture of various grouping of raw material and supplies (see exhibit 6).

These charts gave us a good picture of our inventory direction. What, however, could be considered a satisfactory goal? In order to better judge the overall performance a special report was developed showing what the theoretical inventory should be for each line of product

(see exhibit 7). You will notice that the work in process inventory required is determined by taking 5/8 of the billing for 7 months. The reason we have taken 5/8 is that experience has shown that approximately 5/8 of our cost is incurred at 50% physical completion. Therefore, at level production all work on the average is 50% complete.

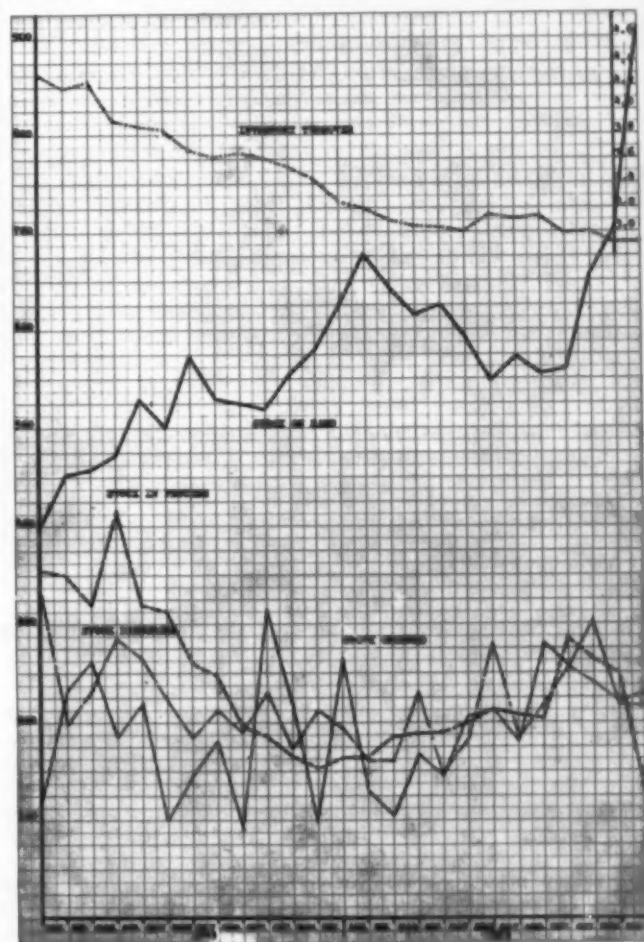


EXHIBIT No. 5

ACTUAL CONTROL OF INVENTORY

Up to now everything presented deals with the overall problem of inventory control. None of these actually control inventory, they merely tell us what direction we

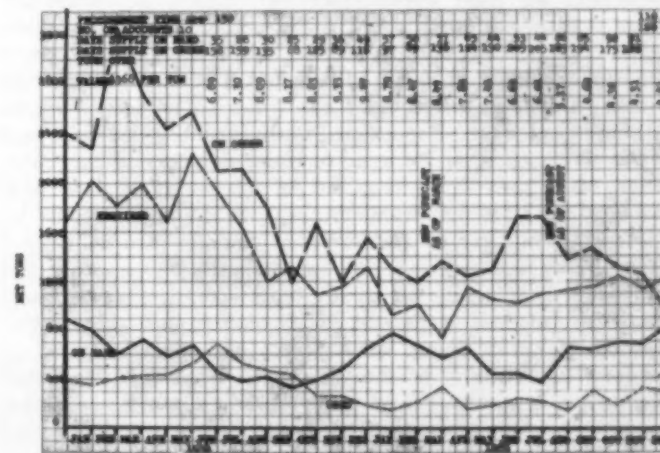


EXHIBIT No. 6

are or are not going on overall inventory control. In fact we must be very careful in looking at overall averages

because they may conceal instead of reveal unbalanced stock conditions.

INVENTORY ANALYSIS - NOVEMBER 1955	
PRODUCT DEPT. 05	
1. Average Manufacturing Cycle	7 Months
2. Cost of Scheduled Shipments Per Year	\$9,240,000
3. Total In Process Inventory Required	
$\frac{7}{12} \times 9,240,000 \times \frac{5}{8}$	3,380,000
4. Finished Stock Inventory Required (To secure 3 turnover based on usage)	260,000
5. Total Inventory Required	3,640,000
6. Optimum Turnover $\frac{9,240,000}{3,640,000}$	2.55
7. Actual Work In Process Inventory	4,214,000
8. Actual Finished Stock Inventory	438,000
9. Actual Total Inventory	4,652,000
10. Total Excess Inventory	1,012,000
11. % of Excess Inventory	28%

EXHIBIT No. 7

It may be possible that 80% of the business may be done in relatively few items, while the rest of the inventory is standing dormant or moving very slowly. It is possible that overstocks on slow movers are tying up capital, while stock of fast movers are starved and many rush orders must be placed. Profits are sacrificed at both ends. Yet the average turnover is entirely satisfactory. So inventory properly controlled must be analyzed item by item.

Example at one of our Works showed 50% of their sales in one item on which they had a 2-1/2 turnover rate. The turnover for the entire works was only one. They had substantial quantities of items where the turnover was less than 1/10 of 1 so again we have to get into the individual items to get the overall rate up. The only way that we can really control inventory is by securing the most economical turnover for each item of inventory.

On the portion of inventory which represents work in process, we must concentrate our efforts to obtain the best scheduling possible. This, together with a continual effort to reduce the manufacturing cycle, is the best control we have on work in process inventory. There are other things, however, that can be done to help Work in Process turnover. For example, the problem we had with defective castings. We used to order delivery of the castings when they were required in the manufacturing process and after rough machining we found them to be defective and had to secure replacement. This would not only delay the delivery for approximately 3 months, but required us to carry all other items already manufactured per the original schedule in inventory for this extra period of time. These other items had a value much in excess of the cost of the castings. We now order these castings in advance and prove them by rough machining and then store them until required in the manufacturing schedule. This increased our carrying cost on the castings, but actually increased our turnover rate, reduced our manufacturing cycle and improved customer relations.

A substantial part of the Industry Group's inventory

is, however, represented by stock items and here is where we must concentrate our efforts to control inventory.

MATERIALS REPLENISHING METHODS

The methods of replenishing both raw and finished materials for the Industries Group differ from our Tractor operations and most other companies for the following reasons:

(1) We do not have extended predetermined manufacturing schedules by type of product.

(2) Most products are engineered, which means that we do not have standard bills of materials.

(3) Raw materials for all products are drawn from a common inventory. The variables resulting from this situation are tremendous and require that we employ different methods for ordering materials depending upon general economic conditions.

The basis of providing materials is to first determine a proposed rate of usage. We accomplish this in three ways, namely:

(1) Past Usage -- a historic record

(2) Sales Forecast -- a prediction

(3) Actual Required Dates

Each of the above methods must be flexible because of the inherent dangers always present. For example, when ordering materials on a historic basis the time lag involved may result in picking up the trend too late; also it is a dangerous illusion to assume that the present trend will always continue. We therefore, when using this type of information, recognize that leveling factors must be used depending upon the general state of our business.

The greatest danger which we recognize in ordering material from sales forecasts is that sales levels very seldom remain uniform and there is always a possibility of obtaining greater sales than we are able to produce in a given period of time. It, therefore, follows that when sales are accumulated faster than our ability to produce, stock should be ordered on our ability to produce, and when sales are less than the production potential, stock should be ordered on the sales forecast. The important point in this factor is to determine when production has reached the saturation point.

It would seem that the method of ordering materials on the basis of actual required dates would be the most accurate. However, this system is only possible if we had predetermined production schedules, or for items used on products with comparatively long manufacturing cycles.

The analyses and computations resulting from the above then give us an anticipated usage figure which is one of the basic figures for our ordering procedure.

PROCUREMENT TIME FACTOR

Procurement time is the other important factor in developing ordering methods. This information is provided by the Purchasing Department on all purchased items, and the Scheduling Department for all items manufactured within our own Works. Rapid unpredicted changes in either or both usually result in either many shortages or excessive inventories.

To accentuate this problem is the fact that increased procurement time and increased sales usually occur simultaneously inasmuch as they both depict general business conditions. However, they do not decline at the same time, at least for those companies that have a large backlog of orders. These varying conditions necessitate changes in the manner in which we interpret our statistics. In view of this situation, we cannot arbitrarily reduce

ordering of materials on an overall basis, but attempt to do it in an orderly manner still permitting production to continue at a high level.

A combination of the two figures represented by anticipated usage and procurement time is generally termed the ordering point. For example, an item on which anticipated usage is 10 pieces per month and the procurement time is 3 months, the minimum ordering point would be 30 pieces. The manner, however, in which this ordering point is applied to the condition of stock allows for many variations. In the past we always reordered material when the "available" quantity was reduced to the "ordering point". This is entirely satisfactory when backlogs are low and work commences immediately in the shops upon receipt of specification, but at A-C, due to the long manufacturing cycle, requirements are not always needed for some length of time. In order to secure a better turnover we changed our method of ordering in which the figure represented as the "ordering point" now becomes a "review point". The "review point" has brought the item into the open for closer observation. At this point an entirely different computation is made. We now intend to reorder our stock on the basis of the amount "on hand" and "on order" based on an average monthly usage, discounting altogether the "requirements". This was a radical change however, and needed a leveling factor. This was obtained by taking the 12 month forecast figure of 240 adding the "requirement" of 100 for a total of 340, dividing by 12 and arriving at a hypothetical usage of 28 per month. This figure is then divided into the sum total of the amount "on hand" and "on order" or 180, the result of 6-1/2 being interpreted and representing a 6-1/2 month supply of material. Procurement time being only 3 months, ordering is deferred and the control is held in a tickler file where its activity is reviewed monthly.

In those cases where the activity does not approach the forecasted rate within 90 days, the account is reviewed with the Sales Section for a revised forecast. Conversely, should the activity indicate usage greater than that predicted, the control is released for ordering at once.

In the first example stock was reordered when the sum of the amount "On Hand" and "On Order" was 180; but not yet ordered. We recognize that the more stringent the control the greater our risk and we have consequently established a further check to minimize the calculated risk.

NEW CONTROL CONCEPT

The control which I am about to explain is entirely a new concept for Allis-Chalmers; and we feel, one that is of vital importance during a period of long procurement times.

There are many items of material today which are taking 8 months or longer to procure. Ordering stock on those items is extremely dangerous in that our rates of usage fluctuate rapidly, yet we are in these cases forced to issue and order on the assumption that usage will continue at a predetermined rate for more than 8 months. Up to this time our ordering procedure has been primarily concerned with determining the point at which an order is released.

The final step in the ordering transaction is accomplished after issuance of the order. As you will note from the prior examples, we have watched the trend before ordering to check on its correctness and now we propose to check on the sales and usage after it has been ordered, so that prompt action may be taken as sales are either

increased or decreased either by means of cancellation or increase in orders.

This is accomplished by making the use of a document printed in the Material Control Department each month as a guide to the Scheduling Section in scheduling orders and is known as the "Analysis of Stock". The "Analysis of Stock" is actually a picture of our ledger record. It lists all open requirements by job number; the amount on order, and the corresponding purchase or stock order numbers. To this we add the figure of the average monthly sales which was expected to be obtained, and on which the stock or purchase order was issued. In addition we show a history of the sales in the past 6 months. Therefore, with that information available, it is possible each month to check the sales after an order is issued to see whether sales have fallen off and thus require cancellation of the outstanding order or whether they have picked up and require increasing the outstanding order. Working from this document allows us to work by exception and only check those accounts on which we have outstanding orders.

We believe that this method assures much greater control than any method heretofore used and it is being accomplished without any additional expense.

PAPER JOB STOCKING THEORY

Our Material Control Department has recently established a paper jobstocking theory. This theory in effect allows us to ear-mark material on paper directly in the bin in the storeroom without physically touching or moving the part to a job stock area. This has resulted in improved scheduling and is also the means of anticipating shortages rather than waiting for them to occur. It actually is a production control system in itself and is entirely new thinking for Allis-Chalmers.

Several years ago we instituted a procedure of continuously inventoring every storeroom. The past practice of inventoring everything at the end of the year was usually done on overtime and with much confusion, which did not always give us the most accurate inventory. The present practice of inventoring everything once during the year with a regular crew has eliminated confusion; given us better inventories and reduced the cost.

One of the most important parts of controlling inventory is to see that the correct quantities of each item are in the best balance.

FORMULA FOR ORDERING STOCK				
$Q = \sqrt{\frac{2 U (S + P)}{I C}}$				
Q = The Economic Ordering Quantity				
U = Annual Usage				
S = Set-Up				
P = Cost of Acquisition				
I = Cost of Carrying Inventory				
C = Unit Cost				
$\sqrt{\frac{2 \times 200 (50 + 15)}{12\% \times 500}}$	=	$\sqrt{\frac{26,000}{60}}$	=	$\sqrt{433} = 21$
$\sqrt{\frac{2 \times 200 (50 + 15)}{12\% \times 100}}$	=	$\sqrt{\frac{26,000}{12}}$	=	$\sqrt{2,167} = 46$

EXHIBIT No. 8

Exhibit 8 shows the basic formula for ordering the most economical quantities to be manufactured. It is not neces-

sary to go thru this calculation every time you order an item. Calculators are now on the market which develop the economical quantities after insertion of the basic information. The examples in exhibit 9, using 12% carrying cost, comes up with economical quantities of 21 and 46.

There is also available on the market a calculator for purchasing lot-size quantities which is very simple to operate. For example, castings can be purchased in lots of 100 at \$5.00 each --- or in lots of 500 at \$4.75 each. By using the calculator we would find that if our usage is more than 84 per month we should buy the castings in lots of 500.

While the only way to control inventory is by controlling each item in itself, there is a point where control can be carried too far. General Electric Company has made famous what is known as A-B-C Analysis, which shoots for dollars not pennies.

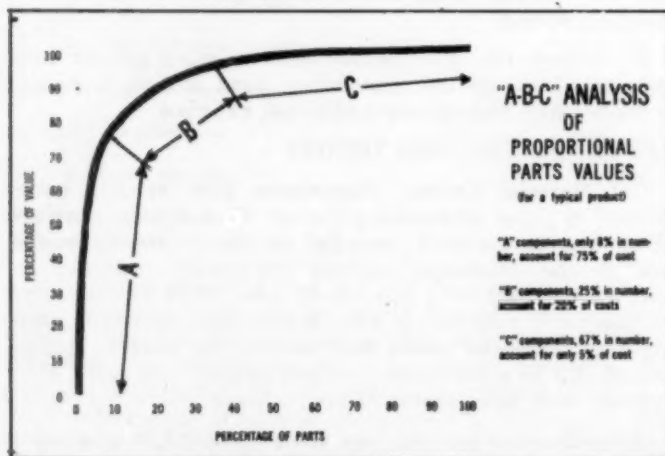


EXHIBIT No. 9

The chart in exhibit 9 tells the A-B-C story. "A" components representing only 8% of the number of items accounts for 75% of the cost. "B" components represent 25% of the number while accounting for 20% of the cost. "C" components represent 67% in number, account for only 5% of cost. In short, A-B-C analysis gives you a measure of the inventory importance of each component. It helps you "put first things first", It can help you get the most control for the least amount of controlling. It is an analytical approach that gets you out from under a great part of the detail that is customarily needed for true control of inventory. It is not too difficult to make this analysis, there being four main steps to take:

1. Extend value of each item by the number of pieces used per year.
2. Arrange the items in descending order of cost.
3. Calculate the percentage of items and value.
4. Plot them on a chart like the one shown.

An analysis made at one of our plants showed that 10% of the number of items accounted for 75% of the cost. 23% of the items accounted for 20% of the cost and 67% of the items accounted for 5% of the cost. This checks fairly close with the G E example in exhibit 9. After a further analysis of The C items we found that there were 66 items representing a total of 9,696 disbursement tickets per month with a total cost of \$3,317.48 or an average of 33¢ per disbursement. We sure were processing a lot of paper to keep track of a small amount of money. As a result of this analysis we made floor stock of these items and discontinued keeping track of the individual dis-

bursements. The cost was included as part of overhead and was ordered from stock in bulk quantities.

We have also applied this A-B-C analysis to help control our Work in Process inventory. For example, at our West Allis Works we found that 70 to 75% of our work in process inventory would be caused by 25 to 30 large orders. We then concentrated our efforts of scheduling on these orders.

I have presented a number of things which have been established in an attempt to better control our inventory, but I would like to close by again saying that only through people can inventory control be the dynamic force which it must be. People must influence practically every area of our business enterprise. Control is made effective and vital only when we recognize the fact that systems are just tools and that people are the driving force which makes them effective. If this is intelligently understood, inventories control can be made effective and managed for profit.

POINTS OF INTEREST IN YOUR 1957 CONVENTION CITY

*Museum of Science and Industry
Jackson Park - Chicago*



Chicago Merchandise Mart



EVERY COMPANY WHICH HAS A BUDGET PROGRAM SHOULD HAVE A BUDGET MANUAL

By: Earle G. Miller

Budget Director, The Parker Pen Company, Janesville, Wisconsin

"Operation Facelift", required as the result of basic changes in organization, product lines and accounting methods, proved to this company the value of a Budget Manual. And if it's a good thing when major changes are required, why not for all the time. Do YOU have a budget manual?

Budgeting is not new at The Parker Pen Company. We have been using budgets to help control our operations for many years. During this period our budgeting procedures and policies, like Topsy, just grew. While we had no formal budget manual, our budget program seemed to accomplish the results which we were after.

However, during the last three years several significant changes have occurred within the company. Of primary importance are the changes which have taken place in our product line. In 1954 and 1955, Parker introduced two new writing instruments into the low-priced, highly competitive ball point market. In September 1956, we announced the new Parker 61 fountain pen, a quality product retailing from \$20.00 up. For products of such wide price divergence, the manufacturing and quality control techniques, sales promotions, point-of-sale displays, and advertising campaigns are as different as day from night.

Coincident with these new products, changes were made in the company organization structure. A Director of Personnel was appointed, and similar functions which had been scattered throughout the company were consolidated into one division. The election of a Vice President for Product Planning and Development also resulted in several changes in the organization chart. During this time we were also refining our methods of responsibility accounting, charging costs and expenses to the department heads who could exercise proper control.

Budgetary Control Program Revised

The foregoing changes, coupled with the realization that, in some areas desired results were not being achieved, caused us to take a long look at our entire budgetary control program. A face-lifting was in order and top management indicated a number of areas in which improvement and closer control were desired. Obviously, it was necessary to advise division heads of the revisions in our budgetary control program. At this point it was decided that a budget manual was the best means of communicating with everyone concerned. In conjunction with the issuance of new budget procedures, we took the opportunity to reiterate the objectives of Parker's budgetary control program.

Preliminary planning of the budget manual revealed that it could be logically subdivided into four sections:

1. Objectives
2. Policies
3. Responsibilities
4. Procedures

The objectives of Parker's budgetary control program were outlined as follows:

1. To realize a favorable net income.
2. To provide the capital necessary to accomplish the budget plan.
3. To coordinate the operations of the various divisions into a single comprehensive plan.
4. To provide management at all levels with a useful tool for the control of their operations.
5. To anticipate unfavorable conditions so that timely preventive measures may be taken.

To accomplish the first two objectives, the Policies section of the manual provides for an Operating Budget of all income and expenses and an Expenditure Budget of cash disbursements. Also included in this section are policies regarding the length of the budget period, due dates for submitting budgets, provisions for budget revisions and approvals. The fiscal year is the controlling factor in all budget relationships. A master budget plan is prepared for the current fiscal year plus the first half of the next fiscal year, so that management has a forward look covering an eighteen-month period. This eighteen-month budget is subdivided into six budget quarters, with the budget for each succeeding quarter containing fewer details.

Budgets Revised Quarterly

Provision is made for the budgets to be revised quarterly. The current budget quarter is dropped and an additional quarter added, with estimates for the intervening quarters firmed up as operating plans solidify. The current quarter's budget is "gospel" and no revisions are permitted once it is approved. An exception to the quarterly revision policy is made for the factory, where departmental budgets are revised semi-annually.

Under the Responsibilities section of the budget manual, we have defined the responsibilities of each of the six division heads of the company. The Parker organization consists of the Manufacturing, Domestic Sales, Export Sales, Executive, Financial, Personnel and Product Planning Divisions. Each Sales Vice President is responsible for his sales forecast as well as the budget of expenses and expenditures under his jurisdiction. An innovation in the budget manual is the fixing of the responsibility for forecasting the release of new products upon the Product Planning Vice President. This is required before the sales divisions can be expected to forecast sales eighteen months into the future. Other division heads are responsible for keeping their expense budgets in line with the sales forecasts. Although the Budget Director assists in the preparation of the various budgets, primary responsibility rests with the division head.

Advise Without Dictating

Procedures outlined in this section of the manual are directed primarily toward interdivisional activities. We advise but do not attempt to "dictate" to the division heads regarding the conduct of the budget activity within their divisions. The prime purpose of this section is to guide the activities of the various divisions in their relations with the Budget Department, and to insure that all expenses are budgeted in a consistent manner by all divisions.

The manual has been an invaluable aid in "Operation Face-Lift." Changes in top company policy have been disseminated quickly and meaningfully by being tied to familiar bench-marks.

Division heads have been pleased with the results. They now have a plan they can get their teeth into -- rather than a nebulous idea which was difficult for them to explain and administer within their division. It has created better understanding at lower management levels and better understanding means better "business budgeting".

PRELIMINARY CONSIDERATIONS FOR PREPARATION OF THE OPERATING BUDGET

By: H. C. Doofe

Assistant Secretary and Budget Manager, American Machine & Metals, Inc., East Moline, Ills.

An Operating Budget is only as good as the effort put into it; the better the background, the better the budget. Here are some hints on the various considerations before actual preparation of your next Operating Budget.

For the purpose of our consideration, the subject shall be broken down into the following three segments: Sales Potential, Material, and Labor. An attempt to foresee the trend of general business conditions is important when planning for the future; in fact, no business can survive very long unless its management has some sound idea as to future prospects. Generally volume can be predetermined within reasonable limits if a careful analysis is made of the trends in a particular segment of industry and giving full weight to certain affecting economic factors.

Too often, however, sales forecasts when developed by top executives tend to be mere guesses or hunches, based on past experience, their biased observations of economic trends, with a review of available trade and financial periodicals thrown in for good measure, and usually do not sufficiently consider the real potentiality of the market. This method is probably followed by the vast number of executives.

While it is acknowledged that there is no real substitute for good judgment and common sense, the application of some scientific methods to secure market facts will result in considerably more realistic sales forecasts. Nevertheless, discretion is recommended and the wise management will understate rather than overstate anticipated sales volumes.

FACTORS WHICH INFLUENCE FORECASTS

We shall now consider the various factors which may tend to influence management's forecast of future business conditions. Consideration is given to the introduction of a new or improved product and its ultimate impact on the total available market, rate of growth of the industry itself and the company's relative position in the industry, changes in the particular company's sales policies concerning prices, terms, allowances and deliveries, adoption of new channels of distribution, adding or opening up of new territories, increased sales force, or a major advertising program to be undertaken in the following year which may have a considerable impact on sales volume. More than anything else, however, the sales forecast depends on the general economic outlook not only here in the United States where lies the bulk of the market for most of us but in the rest of the world as well.

International factors which must be carefully analyzed are war and the threat of war, rehabilitation and aid programs, custom duties and import quotas, as well as our general relationship with the other countries of the world. All of these factors must be evaluated along with the domestic trends and general business conditions within our own country. And here, consideration must be given to the effect of political changes, population growth, Governmental regulations and restrictions on finance and trade, crop surpluses, deficit spending, total consumer income, and a host of other domestic factors.

LONG TERM VS. SHORT TERM FORECASTING

Before proceeding further, we should consider the problem of long-term forecasting versus short-term forecasting. The best of plans made today based on a one-year

estimate would very likely appear short-sighted in the longer perspective of, say, five years. While it is true that rapidly changing economic conditions make it difficult to forecast for more than a year in the future with any degree of accuracy, it must be pointed out that the accuracy of the forecast is not as important as the impetus to long-range planning provided by formal budgets for as much as five or ten years ahead.

Such long-term forecasts are an aid for planning capital investments and financing. Determining the real sales potential of a particular segment of industry on a long-term basis is no simple task. On the other hand, companies engaged in the manufacture of consumer goods or engaged in the public service field are practically obligated to consider use of long-term forecasts or periods which run beyond cyclical influences. Of considerable consequence is the fact of population growth and its implications of increased business activity ten and twenty years hence. Inevitably, more and more enterprises will be taking the long view and basing their planning on trends rather than on cyclical fluctuations.

Short-term determinations of sales potential, however, bump squarely into these fluctuations. Short-term forecasts should give full effect to the company's own representatives' opinions of the outlook for general business in the coming period, but beyond this approach lie other methods of predicting consumer spending. Economic forecasting today centers largely on three segments of activity -- business investment in plant equipment and inventory, government expenditures, and personal consumption expenditures. Forecasts of business investment are usually based on surveys of intention. Forecasts of government expenditures are based on the estimates of officials with reference to tax receipts and budget spending. Only in the field of personal consumption expenditures has much reliance been placed on the analysis of historical data as a guide to projection of future performance.

SOURCES OF DATA FOR SALES TRENDS

For the purpose of our discussion, I shall confine my remarks primarily to determination of the sales potential on a short-term basis as it might possibly be related to the preparation of budgets for the coming year. Just where do various companies obtain information for forecasting the sales trend, or potential, for short-term budget purposes? Here are a few of the possible sources:

1. Utilization of a market research group in the sales department who will advise management of their findings. One major food company has such a unit in their organization which does the sort of thing that might be expected in studying market conditions by locations, population shifts, and birth rates. The country's birth rate, still on the rise, is particularly significant to them because of their baby food business.

2. In a company producing heavy earth moving equipment, the sales potential was determined based largely on information on appropriations made by governmental agencies.

3. A company producing animal food relied largely on

indices relating to the industry, such as the trend in animal population of farms and the trend in farm prices.

4. Outside economists may be consulted. Or perhaps a professional market analyst or statistical agency might be employed to develop the sales potential of a particular business by making a market study. A market study is an investigation among the users of the product to determine the acceptability of the product and the potential volume available to the company. While the total market itself may be fairly easy to establish, a particular company's share of it will be more difficult to forecast. Without having made a sound market survey, the predetermined sales volume may result in misdirection of the company's selling effort. Accuracy will vary with the product and type of market. Goods with a high frequency of purchase are fairly easy to forecast in total, but the sale of particular brands may fluctuate with changes in competitive promotion methods. Capital goods, engineering specialties, luxuries, and style goods are subject to extreme cyclical variations and, therefore, more difficult to forecast.

STATISTICAL DATA HELPFUL

5. Large national concerns will generally have their own central statistical department which constantly follows and analyzes a great many economic indicators related to general domestic business conditions such as: gross national product, personal income, personal consumer expenditures, retail sales, business expenditures for plant and equipment, Reserve Federal Board index of industrial production, wholesale and retail price indexes, and many others. Their analysis shows how the trends in the preselected business indices which are most representative of the business at hand have been found over the years to correspond with, or vary from, the pattern of their own company's sales, both in the aggregate and by product groups. Late in the fall of the year, the current status of these economic trends, together with other factors and conditions to be considered, are presented to management by the statistical department. After further consideration and discussion, general business assumptions for use in the preparation of the various budgets for the coming year are agreed upon. A letter embodying these assumptions is then sent out early in the fourth quarter of the year, going to all who are responsible for preparing budgets.

Up to this point, I have not touched upon the second and third segments of the Economic forecast, namely, Material and Labor. There would appear to be no better guide to material price trends than a company's own purchasing department. They are keenly aware of the fluctuations in prices that result when suppliers of basic materials must contractually grant higher labor rates to their employees. Steel is acknowledged to be the most basic of all the materials we use and is incorporated in a majority of the finished products we purchase, so that any increase in labor rates in the steel industry will most certainly result in corresponding price increases to the consumer, as we have so recently witnessed. In what definitely appears to be still an inflationary era, any current economic forecast should anticipate an increase in almost all material costs for the ensuing year.

Labor, as I look at it, definitely falls into the category of a management problem. For management makes the decision as to the basis of settlement of labor rates at contract time. Some may argue that unions set the pace or, better yet, pipe the tune. Such is only the case if management capitulates for sake of continued output and profits. On the other hand, while it is expected that management will seek to hold its labor costs to a minimum,

NEW MEMBERS

- JAMES A. ATWOOD, Budget Director, Adams Div. Le Toureau-Westinghouse Co., Indianapolis, Ind.
- M. C. THOMPSON, Controller, Louisville Provision Co., Louisville, Ky.
- KENNETH P. LOCKE, Asst. Budget Supervisor, The Detroit Edison Co., Detroit, Michigan
- JOHN W. JACOBS, Budget Manager, Wolverine Tube Div., Calumet & Hecla Inc., Detroit, Michigan
- J. HUBERT McISAAC, Asst. Controller, The Detroit Edison Co., Detroit, Michigan
- ORVILLE R. MARTIN, Controller, Sams Inc.-Randolph Drug Co., Detroit, Michigan
- M. ED CRISWELL, Budget Director, Security Engineering Div. of Dresser Operations, Inc., Dallas, Texas
- PAUL JOHN KRUDER, Budget Director, Ferro Corp., Cleveland, Ohio
- ANDREW E. STEFANSIK, Budget Analyst, Jones & Laughlin Steel Corp., Cleveland Works Div., Cleveland, Ohio
- LAWRENCE F. WILLIAMS, Budget Coordinator, Jones & Laughlin Steel Corp., Cleveland Works Div., Cleveland, Ohio.
- A. HUBERT SWANSON, Manager-Accountants, Arthur Andersen & Co., Milwaukee, Wisconsin
- HAROLD DeBAUN, Associate Professor of Commerce, University of Wisconsin, Madison, Wisconsin
- HUBERT DURR BERO, Controller, Wembley, Inc., New Orleans, La.
- HENRY B. STORM, Budget Supervisor, Flight Refueling, Inc., Baltimore, Md.
- HARRY C. DAVIS, Jr., Budget Analyst, Dresser Equip. Co., Idco Div., Dallas, Texas.
- ROBERT L. JENSEN, Accountant, The Times Herald Printing Co., Dallas, Texas
- RICHARD E. NIELSEN, Staff Asst. to Works Mgr., International Harvester Co., Rock Island, Ill.
- DOUGLAS M. JOHNSON, Chief Processing Engineer, International Harvester Co., Rock Island, Ill.
- TED F. BEARD, Director of Budgets, Solar Aircraft Co., San Diego, California
- RALPH J. KULK, Accountant, The Marston Co., San Diego, California
- HARRY E. FISCHBAUGH, Controller, Oliver Tyrone Corp., Pittsburgh, Pa.
- PAUL W. AHERN, Budget Accountant, Simoniz Co., Chicago, Illinois
- MARVIN E. GOLLOB, Lecturer in Accounting, Northwestern University, Chicago, Illinois
- DONALD R. JACKSON, Assistant Controller, Montgomery Ward & Co., Chicago, Ill.
- JOHN J. JACOBS, Controller, Peoria Malleable Castings Co., Peoria, Ill.
- CHARLES L. WALKER, Budget Manager, Merck, Sharp & Dohme, Philadelphia, Pa.
- ROBERT J. HAGELIN, Budget Dept. Mgr., Remington Rand Univac, St. Paul, Minn.
- ARTHUR R. COX, Vice Pres. & Treasurer, San Diego Gas & Electric Co., San Diego, California
- HERBERT J. COHEN, Controller, Dunmar Rubes, Ltd., New York, N. Y.
- GORDON L. JONES, Budget Director, Southwest Lumber Mills, Inc., Phoenix, Arizona

it is also recognized that collective bargaining efforts will generally secure for the workers regular wage increases. Again, considering that we appear to be in an inflationary era, and taking into account the fact that many union contracts negotiated in 1956 were two year pacts, any economic forecast would of necessity contemplate increases in labor costs.

REPORT ON THE TRI-CHAPTER MEETING

By: Larry Haverkamp

Cincinnati, Indianapolis and Louisville NSBB members met for good fellowship and learning at Indianapolis on November 7th, and, oh yes!, we cannot overlook the gentleman from St. Louis who changed the meeting into a quad-chapter meeting of Mid-West Chapters.

Those of us who were fortunate enough to arrive in Indianapolis in the early afternoon were privileged to take a highly interesting tour of the Eli Lilly Company. Gads, I hope that we as budget men are not responsible for the need for all those pills. It was inconceivable to me that pills were manufactured in the quantities being run through the spotlessly pure factory of Eli Lilly. I suppose that on any trip of this sort, one thing will stand out in your memory, and this trip was no exception for me. Besides the quantity of pills, the method of counting the pills before bottling struck me as a very clever idea, and yet it was simplicity in itself. They did, of course, have some automatic pill counters, but, by far, the majority of the pills were being counted in somewhat of a manual basis.

The method, as best I can describe it, consisted of a white-garbed woman standing in front of a bin about table high which contained huge quantities of pills. In her hand she held a piece of aluminum about twelve inches by sixteen in which were one-hundred recessed holes corresponding to the size of pills being bottled. With a quick movement, the plate would be scooped into the mound of pills, and with a few shakes of the wrist and a dumping of the excess pills picked up, all of the holes seem magically filled. Then with a deft flip of the hands, the entire lot of pills seem to leap out the holes to be trapped against a bar about two inches high at the base of the aluminum plate. From this point they were easily transferred into waiting bottles, and the process began over again. Very fascinating indeed.

Since none of us had taken our three polio shots we were unable to visit the building in which the vaccine was being manufactured, and they kept us out of the experimental labs where all the monkeys are kept. I wonder why?

The dinner and evening affair was held at the Hotel Warren, and since it was November the menu appropriately enough called for an entree of turkey. Only one complaint did I hear, and that came from George Gausing of the Cincinnati Chapter, who happened to have lunch at the Hotel Warren also, and had turkey. Better luck next time, George.

Kent Crawford, President of the Indianapolis Chapter, handled the introduction of guests, and bid welcome to the following from Louisville Chapter: L. Hollander, J. Mitchell, H. Richeson, and C. Manteuffel; Cincinnati Chapter visitors included: Paul Coons, Joe Hoffman, George Gausing, Charles Deiterman, Mel Aichholz and Larry Haverkamp; the lone guest from St. Louis was J. A. Alvarez. The nicities being disposed of, Kent turned the meeting over to Jim Miles for the introduction of the speaker for the evening.

Jim introduced Mr. Ed Buge, Controller of the Bernardin Bottle Cap Company, Inc. of Evansville, Ind. Ed, as the older members will recall, was associated with the Mid-West organization which merged with the Eastern group to form the National Society for Business Budgeting. He was then a member of the National Association of Budget Officers, and had been the first president of the Milwaukee Chapter of this organization in the year 1947-48.

Ed's topic for the evening was "Economic Forecasting

for Business and Budgeting Purposes," and he started his talk with the quotation, "These are the times which stir men's souls." Ed had reference to the world situation which he stated has profound effects on economic forecasting. Ed did not specifically point out what we can do about the world situation, but he did stress the importance of economic forecasting on the affairs of your business. The scientific approach to the business of forecasting, however, must be supplemented with common horse-sense.

About this point in his discussion, Ed asked a fair question. It was, "How many of those present had a plan for retreat in readiness for the fall-off in business?" The company which has a master plan for operations on the way down will have it made one of these days, he stated. Expansion will exceed demand in the not-too-distant future, and only companies with a master plan will come out of the business dip in a strong condition. I gathered from Ed's stress on this point, and again in a later discussion with him, that he firmly believes that a business recession is soon at hand.

Ed referred to a series of charts which he uses to check his opinions against when it comes time to forecast the future. He uses the following indices: Business Activity, Automobile Production, Steel Production, Stock Prices, Scrap Prices, Carloadings, Demand Deposits versus Loans and Paperboard Production.

A strong demand for financial control men is coming soon in Ed's opinion, and these control men will be required to have a good working knowledge of the operations of the electronic equipment which is coming to the fore today. This equipment right now, states Ed, is ahead of our abilities to utilize it fully. The day will come when we will have Day-by-Day Profit and Loss statements, and Day-by-Day Balance Sheets, as soon as we have competent managers to figure out how to make use of the equipment which can do this for us.

Ed finished his talk with an excellent comparison of the relative value of Tact versus Talent as a basic qualification of a good budget man, and concluded that TACT is the more important.

Ed made a good case for his opinions regarding the future of business and the future role of the budget officer, and both will bear following up on in future months and years.

Our thanks to all the men responsible for the excellent hospitality displayed at the third Tri-Chapter meeting. It was well appreciated.

ABOUT OUR AUTHORS

L. F. NEITZEL, is manager of the Budget Department of Allis-Chalmers Manufacturing Company, Milwaukee. Prior to joining this company in 1943, he was Secretary and Comptroller of Convertible Door Manufacturing Company Milwaukee. He received his accounting education in evening classes at Marquette University and the University of Wisconsin Extension Division. He is presently vice-president of Milwaukee Chapter, NSBB.

EARLE G. MILLER is a native of Chicago, and a graduate of Northwestern University School of Commerce, Chicago. He is a registered CPA in Illinois and Wisconsin. Prior to joining the family of Parker Pen Company, he was with Kellogg Switchboard & Supply Co., and the Burny Brothers Co., Chicago. He is a member of the Milwaukee Chapter, NSBB.

NEWS BULLETINS

Chapter formation activities have become very active at Dayton, Ohio through the efforts of a former member of the Cincinnati Chapter, Gene Middlekamp, who recently accepted a position with Harris-Seybold in Dayton, Ohio. Chick Reynolds, National Vice-President, attended an organization meeting on November 15th, and reports that great progress has been made, and without doubt a new chapter will materialize.

The Los Angeles Chapter Formation Committee, consisting of H. L. Colman, A. R. Foy and H. S. Gray reported to the Los Angeles group meeting in that city on October 25th that organizational plans were proceeding as planned.

The 1959 National Conference was awarded to the Twin-Cities Chapter. No details are available at this time but you can be sure that if one city can stage a successful national conference, the two cities of Minneapolis-St. Paul will not be outdone when their turn comes.

On November 14, John M. Schultz, a member of the Philadelphia Chapter of NSBB was guest speaker at the Brooklyn, N.Y. NACA meeting. His subject, appropriately enough, was "Budgets". John is Manager of the Budget Division, Atlantic Refining Co., Philadelphia.

Walter Moore, Cincinnati Chapter President, tendered his resignation from this office due to the fact that he was accepting a position in Fremont, Ohio, and regretted that he could not carry out his term of office. Larry Haverkamp was elevated from his Vice-Presidential position to fill the vacancy.

Our Canton, Ohio Chapter printed the following two line jingle in a recent issue of their chapter newsletter, and we think it bears repeating.

"Here's the thing to remember,
Each one bring a new member."

BUDGETING ARTICLES IN OTHER PUBLICATIONS

The subject of "Budgeting" is appearing frequently in many business publications besides "Business Budgeting" magazine. The Topical Index to Volume XXXVII of the NACA Bulletin, issued in August, 1956, carries the titles to a total of eleven articles on budgeting subjects, which appeared in NACA Bulletins during the year.

An article, "This is Why Companies Go For Cash Forecasts", was published in Business Week, issue of April 28, 1956.

"The Use of Charts for Budget Development", by F. W. Burton, appeared in the September, 1956 issue of The Controller magazine.

PERSONALS

GLENN WELCH - DALLAS CHAPTER - addressed both the Dallas C.P.A. Chapter and the Dallas Chapter of N.A.C.A.

FRANK JUDD - LOUISVILLE CHAPTER - teaches Budgetary Control at the University of Louisville's Division of Adult Education.

PROMOTION NEWS

JAMES FROST - CANTON CHAPTER - has been promoted to Assistant Treasurer of Diebold, Inc.

BEN RIVERS - LOUISVILLE CHAPTER - was made Assistant Treasurer and Assistant Controller of Glenmore Distilleries Co.

BOB HEDDING - INDIANAPOLIS CHAPTER - was appointed Vice-President and Treasurer of George J. Mayer Co.

EXCERPTS FROM CHAPTER NEWSLETTERS

F. J. BRENNAN, Cleveland Chapter Newsletter Editor, has written an excellent digest of a talk delivered before the chapter by Mr. James Dawson, Economist for the National City Bank. Here is the summary - check it against your own forecast.

"At our September meeting, Jim Dawson, Economist for the National City Bank, spoke on the Economic Forecast for 1957. He outlined the five popular methods of making an economic forecast:

1. Historical approach
2. Diffusion approach
3. Monetary approach
4. Barometer approach
5. Spending approach

Mr. Dawson stated that economists who use all five approaches are the cautious group and are bearish about the future. The bullish group are those who use the Spending approach or what is called the Gross National Product.

The outlook is bearish when we consider the historical approach which encompasses a two year normal rise in prosperity followed by a decline. The decline should follow the current rise early in 1957, if we are to consider the historical approach as authoritative.

The Monetary approach is the consideration given to growth in demand deposits of individuals and business. Demand deposits are up 3-1/2% over a year ago indicating a healthy economy.

Steady growth has been experienced in Inventories since the beginning of 1955. Part of the strength of the economy is because of build up of inventories.

Mr. Dawson itemized the 12 factors constituting the economic barometer which is used to test the economic climate in forecasting a recession in business. These factors were printed in May, 1955, issue of your newsletter. Through the analysis of these factors he stated that the rating was better than in April and at that time he saw no immediate danger of recession.

The Spending approach Mr. Dawson explained was the most popular method of forecasting the economy and gave these figures as his opinion of a forecast of the Gross National Product for 1957. (Figures are seasonally adjusted, annual purchases in billions of dollars.)

"Purchasing Agents"	Last Year	This Year	Next Year
Government			
Federal	\$ 47	\$ 46	\$ 47
State & Local	30	33	35
Business			
Plant & Equipment	30	35	37
Inventory	4	2	-
Private Construction			
Residential	17	15	15
Consumer			
Durable	37	34	37
Non-Durable	128	133	138
Services	93	99	102
Other	11	11	11
Gross National Product	\$397	\$408	\$422

Mr. Dawson stated that the inventory build-ups we are now experiencing have a tendency to do more harm than good. High price build-up followed by low price liquidation could upset the entire economy if dropped too

sharply. He stated that a ratio of inventory build-up to sales of 1-6 or lower would be good but a 1-7 or higher build-up of inventory to sales could send the economy on a downward slide.

Inflationary factors are slight and are not consequential enough to warrant the build-up of inventories to avoid inflationary prices. Wage rates have increased 4% while product cost has increased 3% leaving 1% differential to contribute to inflation Mr. Dawson stated.

Capital purchases of Plant & Equipment are products of confidence and will not go down until after prices go down.

Some interesting statistics of Mr. Dawson's talk indicated that:

- 1 - Percentage of people of working age is going down and will not recover again until 1975.
- 2 - Auto output will be around 7,000,000 in 1957.
- 3 - There is an increase of 50% in the number of families with income of \$5,000 or more since 1948, with adjustments made for price changes.
- 4 - Housing production is about normal or about 1,100,000 new houses per year.
- 5 - The economic future looks promising in that each year until 1957 more persons will be celebrating their 20th birthday, marrying and bringing more family units into the market. By 1975 the rate of 20th year birthdays is expected to increase 85% over 1955."

RALPH BARTLETT, Philadelphia's Newsletter Editor, reports that they revised their program to delay the scheduled discussion of 1957 prospects until after the election. The result was that his report is on an entirely different subject.

"George W. Jackson of Exide Storage Battery Company was then moved up from his position later on in the year to discuss for us Budget Principles and Preparation. His topic proved very interesting and brought forth quite a bit of discussion from our members.

It was pointed out that there are seven basic fundamentals necessary to the successful operation of a budget:

- 1 - The budget must be comprehensive. It must cover the entire activity of an organization. What appears adequate by itself may lose its validity when viewed as part of an integrated whole.
- 2 - The Budget is based on Operating Plans. A well prepared budget is preceded by a well prepared plan of operations and the planning of the operations must be closely related to the process of budgetary controls. Unless there is a close relationship between the practice of planning and the expression of the plans through the budget in terms that are meaningful to the operation, the budget does not justify the time and effort spent on its preparation.
- 3 - The Budget Must Be Based on Cost Data. The use of cost data is a logical outgrowth of the development of operating of operating plans. The history of good administration indicates that progressively more areas of cost, which heretofore has been appraised only by rule-of-thumb methods, are now being made the subject of cost studies with an aim to erecting a measure of standard performance.
- 4 - The Budget is Designated to Support Performance. An important role of the budget is to provide a benchmark for measuring performance throughout the budget period. It is imperative, therefore, that the budget be

expressed in terms that have real meaning to each level of management, and the budget as finally developed must lend itself to ready comparison with actual results.

5 - The Budget is The Product of a Continuing Process. Just as there is no time period when sales efforts, manufacturing operations or the handling of personnel problems are at a standstill, so the budgeting job is never done. The correlation of broad management policy with every day operating data and the fusing of these two elements into an effective financial program is an essential part of management's daily function.

6 - The Budget Must Conform with Responsibility. The person in charge of each budget area should participate to the greatest possible extent in the establishment of his own budget goal. Otherwise the budget becomes ineffective as an instrument for planning or as a control tool.

7 - The Budget Must Provide for Adequate Review. The budgetary procedure must provide check points for various phases of budget preparation, to insure not only complete coverage of all areas to be budgeted but also to make certain the program as developed incorporates all planned improvements.

George concluded his discussion for the evening with a review as to how these seven basic principles were being applied in the building of a budgeting system within his own organization."

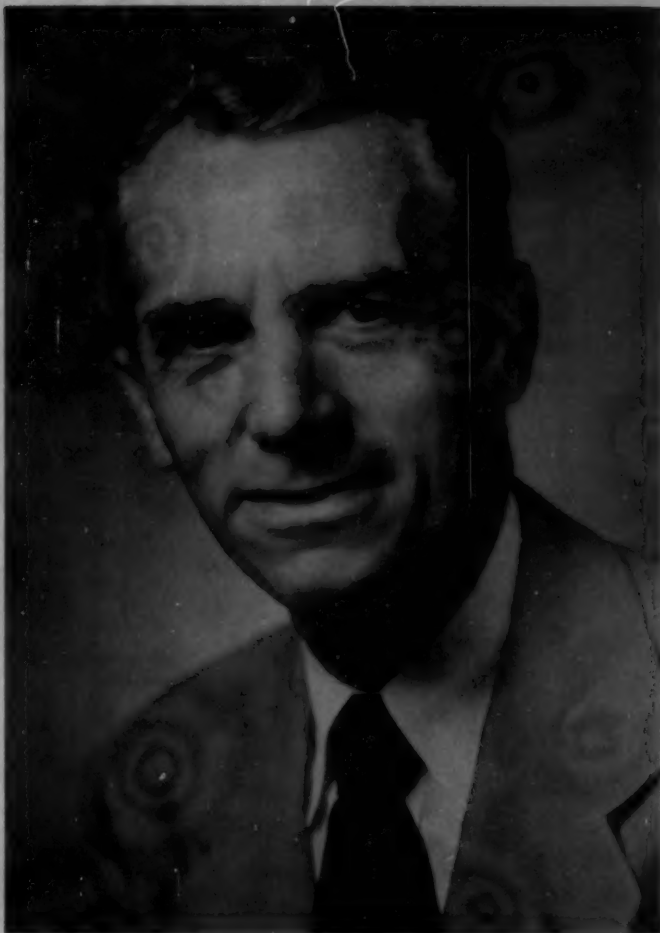
A POLITICIAN IN OUR MIDST?

DR. KNIGHT NOW STATE FINANCIAL ADVISER

Although we lack full details, it has been learned that Dr. W. D. Knight, budget and accounting authority and formerly a member of the faculty of the University of Wisconsin, has accepted appointment as Financial Advisor to the governor of Wisconsin. His address is Now: Governor's Office, State Capitol, Madison. Dr. Knight is a long-time NSBB member, formerly edited this organization's annals, and has authored books on the subject of budgeting. Congratulations!

CHICAGO IN SPRING YOUR CONVENTION CITY IN MAY, 1957





Charles H. Eckelkamp – First Vice President

Our first Vice-President is known to his friends, and that includes all NSBB members, as "Eck." He joined the New York Chapter of NSBB in 1952, and subsequently served on various committees culminating in service as chapter president in the year 1955-1956. For the National, Eck served as National Chairman of Publicity prior to his nomination and election this year as First Vice-President.

To provide his family with the necessities of life, plus the extras required by his wife, son and daughter, Eck applies his budgeting knowledge to the solution of the budgeting problems of Combustion Engineering Inc., 200 Madison Ave., New York 16, New York, where he serves as Budget Director. Prior to this association, he served twelve years in the investment banking field as Auditor and Controller, supplemented with eleven years in public accounting, with eight years of this work as a member of the staff of Arthur Andersen & Company.

Eck also served as a Vice-President, and Director for the New York Chapter of N.A.C.A. Eck's home is in Floral Park, Long Island, New York, where he is a member of the local Methodist Church, and it is reported that he is active in local civic and charitable organizations.



Charles P. Reynolds – Vice-President

As you know, NSBB's other Vice-Presidents are known simply as Vice-Presidents – no seconds or thirds, so we will continue our feature "Know your Officers" with an introduction of Charles P. Reynolds, Jr., hereinafter known as "Chick."

Chick was a charter member and contributed greatly to the formation of the Cincinnati Chapter of NSBB, where he served as Vice-President and then as President in 1954-55. His special duty as National Vice-President is to promote the organization's cooperation with educational institutions.

Immediately after graduation from Iowa State College, Chick started his business career with General Electric at Schenectady, New York. Six years later, in 1943, he traded jobs for the braid of a Navy Ensign. After hostilities ceased this time, Chick joined the A.O. Smith Corporation in Milwaukee, where he served on the Controller's staff and then became Controller of a division of that company. In 1949, he joined Ford International in New York City where he served as Assistant to the Controller. However, in 1952 he moved back to the midwest, when he was appointed Assistant Comptroller of Trailmobile Inc., Cincinnati, Ohio. Subsequently, he was elected Comptroller of Trailmobile, which is his main occupation today.

Chick's family of wife, two girls and a boy manage to keep him home once in awhile when business trips and Boy Scout work don't have him tied-up.

If it seems unusual not to start the "Know Your Officers" series with a picture of our National President Bill McGuire, we hasten to assure you that it has not been just an oversight. We believe that if you will refer back to the September issue of Business Budgeting and re-read Bill's presidential message to all members, you will have a better knowledge of Bill than we can present with mere vital statistics. Bill, as you know, has given long and fruitful service to NSBB and we believe that the feeling of his message conveys real knowledge of his person and ideals. We are sure that you all know our President - Bill McGuire.

PLAN AHEAD TO ATTEND!

SEVENTH ANNUAL N.S.B.B. NATIONAL CONFERENCE

May 23-24, 1957

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YOUR HOST-THE CHICAGO CHAPTER

is planning ahead to secure the foremost speakers in the budgeting field as an integral part of a versatile program for your enjoyable visit. We anticipate welcoming you to a greater N.S.B.B. Conference in "Fifty-Seven."